

AUDITING PROCEDURES REPORT

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name The Library Network		County Wayne
Audit Date September 30, 2004	Opinion Date November 19, 2004	Date Accountant Report Submitted to State: March 17, 2005		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

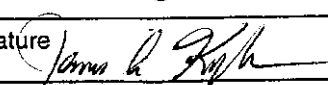
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) Doeren Mayhew			
Street Address 755 West Big Beaver Road, Suite 2300	City Troy	State MI	ZIP 48084
Accountant Signature 			

James A. Koepke

THE LIBRARY NETWORK
COMBINED FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

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Independent Auditor's Report

To the Members of the Board of Trustees
of **The Library Network**

We have audited the accompanying financial statements of the governmental activities and each major fund and the aggregate remaining fund information of The Library Network as of September 30, 2004, and for the year then ended which collectively comprise The Library Network's basic financial statements as listed in the table of contents. These statements are the responsibility of The Library Network's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund and the aggregate remaining fund information of The Library Network as of September 30, 2004, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 32 and 33 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

DOEREN MAYHEW

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise The Library Network's basic financial statements. The combining fund financial statements listed as supplementary financial information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of The Library Network. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2004 on our consideration of The Library Network's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink that reads "Doeren Mayhew". The signature is written in a cursive, flowing style.

DOEREN MAYHEW

November 19, 2004
Troy, Michigan

THE LIBRARY NETWORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include information that presents two different views of The Library Network:

- The first column of the financial statements includes information on The Library Network's Funds under the modified accrual method. These fund financial statements focus on current financial resources and provide a more detailed view about the accountability of The Library Network's sources and uses of funds.
- The adjustment column of the financial statements represents adjustments necessary to convert the fund financial statements to the government-wide financial statements under the full-accrual method.
- The government-wide financial statement columns provide both long-term and short-term information about The Library Network's overall financial status. The statement of net assets and the statement of activities provide information about the activities of The Library Network as a whole and present a longer-term view of The Library Network's finances. These statements tell how these services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

THE LIBRARY NETWORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	<u>2003-2004</u>	<u>2002-2003</u>
Current assets	\$ 2,553,621	\$ 2,441,391
Capital assets	<u>1,832,924</u>	<u>1,561,616</u>
Total assets	4,386,545	4,003,007
Long-term debt	1,001,289	1,087,888
Other liabilities	<u>1,261,895</u>	<u>1,076,877</u>
Total liabilities	2,263,184	2,164,765
Net assets		
Invested in capital assets, net of debt	831,635	473,729
Restricted for Special Revenue	933,944	1,200,081
Designated for Menu Services	162,000	162,000
Unrestricted	<u>195,782</u>	<u>2,432</u>
Total net assets	<u>\$ 2,123,361</u>	<u>\$ 1,838,242</u>
Revenues		
State Aid	\$ 1,644,312	\$ 1,161,877
Formula	3,554,555	3,440,560
Other	<u>844,272</u>	<u>920,422</u>
Total revenues	6,043,139	5,522,859
Expenses - services	<u>5,619,579</u>	<u>5,367,529</u>
Change in net assets	<u>\$ 423,560</u>	<u>\$ 155,330</u>

THE LIBRARY NETWORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library Network as a Whole

- The Library Network's net assets increased by \$423,560 this year compared to \$155,330 in the prior year. The primary reason for this is the increase in the State Aid received from the State of Michigan. This increase was primarily the result of the membership of the Detroit Public Library in The Library Network.
- The Library Network's primary source of revenue is formula for the Menu Services, which represents 59% of total revenue compared to 62% in the prior year. The Menu Services departments: Acquisition, Shared Automation, and Bibliographic are zero budget departments. Any revenue over expenditures at year-end is included in deferred revenue. State Aid is the primary revenue for the administration of the cooperative, which represents 27% of the total revenue as compared to 21% in the prior year. State Aid increased by 42% due to the inclusion of the Detroit Public Library into the Cooperative.
- Salaries and fringes continue to be a significant expense of The Library Network, representing 32% of total expenses. The addition of part-time positions in Human Resources, Shared Automation Systems, and Delivery, resulted in a 14% increase in benefits, and a 3% increase in salaries contributed to an increase of \$112,275 or 7% over the prior year. The increase in 2002-03 and 2001-02 was 9% and 6%, respectively.
- Books and materials represent 32% of The Library Network's total expenses. A decrease in member library spending has reduced the amount of materials purchased in the current year by \$48,617 or 3%. All but 2% of the books and materials are member library purchases.
- Depreciation expense, which represents 5% of The Library Network's total expenses, increased due to the purchasing of a new shared automation system (SIRSI). This is the first year The Library Network has included depreciation as part of the financial statements.
- Total expenses increased by \$252,050 in the current year. This increase is mainly due to the purchase of the new shared automation system (SIRSI).

THE LIBRARY NETWORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library Network's Funds

Our analysis of The Library Network's major funds is included on the Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities. The fund column provides detailed information about the General Fund, Capital Reserve Fund, Shared Automation Capital Reserve Fund, Grant Fund, MiLE Fund, PLFIG Fund, and Member Advance Fund.

The Library Network's combined fund balance decreased by \$129,565 during the current year, compared to a \$39,295 increase in the prior year. Significant decrease in The Library Network's fund balances this year was primarily the result of a planned purchase of new hardware and software for the shared automation system (SIRSI). The break down is as follows:

	<u>2003-2004</u>	<u>2002-2003</u>
General Fund - Administration	\$ 204,728	\$ 65,532
General Fund - Menu Services	28,710	(40,366)
General Fund - Passthru	(96,866)	(75,517)
Capital Reserve	54,548	-
Shared Automation Capital Reserve Fund	(384,938)	89,645
Grant Fund	386	-
MiLE Fund	20,507	-
PLFIG Fund	43,360	-
	<u>\$ (129,565)</u>	<u>\$ 39,295</u>

During the past two years accounts receivable balances have remain unpaid beyond 60 days after year-end. In 2003-04 the impact of this was \$169,806 (General Fund - Administration \$550; General Fund - Menu Services \$11,659; General Fund - Passthru \$157,597). In 2002-03 the impact was \$116,035 (General Fund - Administration \$150; General Fund - Menu Services \$40,366; General Fund - Passthru \$75,516). The Library Network is working with the Wayne County Library to address this problem.

The General Fund - Administration fund balance increased \$204,728 in the current year due to continued controls over expenditures as well as the increase in the population served by the Cooperative. The impact of the unpaid accounts receivable is minimal.

The General Fund - Menu Services are normally zero-budget departments with the balance going to deferred revenue. Due to the above mentioned impact of unpaid accounts receivable they have results other than zero.

THE LIBRARY NETWORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library Network's Funds - Continued

The General Fund - Passthru is normally a zero-budget department. All items are purchased for member libraries and billed out dollar for dollar. Due to the above mentioned impact of unpaid accounts receivable this department has results other than zero.

The Shared Automation Capital Reserve Fund decreased by \$384,938 in the current year. The expenditures were all due to the purchasing and implementation of SIRSI, the new shared automation system. All expenditures were budgeted. The annual revenue contributed by member libraries was reduced in 2003-2004 by \$80,575 to \$100,035.

The Capital Reserve and PLFIG Funds are new this year. Capital Reserve is a fund set up by the General Fund for the purchase of capital assets in the future.

The Library Network is the fiscal agent for MiLE and PLFIG.

The Grant Fund has a carryover balance for continuing grant expenditures. The funds were spent in the first quarter of 2004-2005.

Debt service, consisting of principal and interest, was 3% of total expenditures and 11% of State Aid in the current year. Debt service was 3% of total expenditures and 15% of State Aid in the prior year. The debt for The Library Network building was refinanced in the first quarter of 2004-2005. The new debt service payment will be reduced by \$14,405 per year.

The Library Network's Budgetary Highlights

Over the course of the year, The Library Network Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in cooperative state aid, salaries and fringe benefits, contract services, equipment, and books and materials.

The increase in the budgeted cooperative state aid was the result of including additional population in the cooperative that was not accounted for in the original budget.

Salaries and fringe benefits budgeted increase due to the increase in delivery from three days a week to five days a week starting July 1, 2004. In addition, the budgeted amounts were amended for the continued rising cost of health care.

The increase in the budgeted contract services was due to the payment for delivery service to the Detroit Public Library.

THE LIBRARY NETWORK

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Library Network's Budgetary Highlights - Continued

Equipment budgeted increase due to the member libraries purchasing new computers and equipment to prepare for the new shared automation system (SIRSI) installation.

The increase in the budgeted books and materials was due to the early billing of subscriptions for the 2004-2005 fiscal year. The auditors subsequently moved the expenditure to the 2004-2005 fiscal year removing the need for the increase.

Capital Assets and Debt Administration

At the end of the fiscal year, The Library Network had \$1,832,924 invested in land, building, furniture, and equipment. The Library Network added \$502,148 in equipment and software consisting of the SIRSI system, phone system, mobile lab, and training lab. The Library Network also added \$78,424 in motor vehicles consisting of three trucks for increased delivery. A phone system was disposed of with a cost basis of \$27,347, which had a net book value of \$-0-.

The Library Network's building loan totaled \$1,001,289, with an 8.75% interest rate, and a 2012 maturity date at September 30, 2004. In the first quarter of 2004-05, The Library Network refinanced the building loan with an issuance of a combination of bonds. The tax exempt bonds are valued at \$938,000 with a 4.2% interest rate. The taxable bonds are valued at \$114,000 with a 6.5% interest rate. The higher interest rate bonds are to be paid off by December 1, 2005. The lower interest rate bonds are to be paid off by 2012.

Detroit Public Library

The Detroit Public Library's membership in The Library Network is likely to change in the future. The Library Network does not budget the State Aid revenue from Detroit Public Library's population until after the start of the fiscal year when their membership status is clarified.

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of The Library Network's finances to its citizens, customers, investors, and creditors and to demonstrate The Library Network's accountability for the money it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the following:

Director
The Library Network
13331 Reeck Rd.
Southgate, Michigan 48195

THE LIBRARY NETWORK

GOVERNMENTAL FUNDS BALANCE SHEET AND STATEMENT OF NET ASSETS SEPTEMBER 30, 2004

	Modified Accrual Basis	Adjustments	Statement of Net Assets
Assets			
Cash and cash equivalents (note 3)	\$ 1,267,149	\$ -	\$ 1,267,149
Restricted cash	208,752	-	208,752
Receivables (net)	716,649	-	716,649
Inventories	20,195	-	20,195
Prepaid expenses	340,876	-	340,876
Capital assets - less accumulated depreciation (note 4)	-	1,832,924	1,832,924
Total assets	2,553,621	1,832,924	4,386,545
Liabilities			
Accounts payable	358,793	-	358,793
Accrued liabilities	235,651	-	235,651
Deferred revenue	675,437	(169,806)	505,631
Compensated absences	38,763	123,057	161,820
Mortgage payable - current portion (note 5)	-	94,488	94,488
Long-term liabilities			
Mortgage payable (note 5)	-	906,801	906,801
Total liabilities	1,308,644	954,540	2,263,184
Fund Balance			
Fund balance - unreserved			
Designated for menu services	150,345	(150,345)	-
Undesignated	160,688	(160,688)	-
Fund balance - reserved			
Designated for special revenues	933,944	(933,944)	-
Total fund balance	1,244,977	(1,244,977)	-
Total liabilities and fund balance	<u>\$ 2,553,621</u>		
Net Assets			
Invested in capital assets (net of related debt)		831,635	831,635
Restricted for			
Special revenues		933,944	933,944
Menu services		162,000	162,000
Unrestricted		195,782	195,782
Total net assets		<u>\$ 878,384</u>	<u>\$ 2,123,361</u>

See accompanying notes to combined financial statements

THE LIBRARY NETWORK

STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE AND STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Modified Accrual Basis</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Formula revenues	\$ 3,041,349	\$ 169,256	\$ 3,210,605
Formula telecommunications	343,950	-	343,950
Member reimbursements	154,583	-	154,583
Earned income	229,936	-	229,936
Rental income	35,925	-	35,925
Cooperative state aid	1,644,312	-	1,644,312
Nonmember reimbursements	1,950	-	1,950
Consulting fees	104,809	-	104,809
Interest	13,618	-	13,618
Federal grant revenue	26,666	-	26,666
Miscellaneous revenue	20,256	-	20,256
Contracts	255,979	550	256,529
	<hr/>	<hr/>	<hr/>
Total revenues	5,873,333	169,806	6,043,139
Expenditures			
Books and materials	1,799,704	-	1,799,704
Salaries and employee benefits	1,806,454	(3,006)	1,803,448
Supplies and miscellaneous	221,691	-	221,691
Contractual services	446,950	-	446,950
Utilities and telephone	416,860	-	416,860
Other costs/transfers, less debt payment	382,178	-	382,178
Equipment maintenance	724,410	(580,572)	143,838
Grant expenditures	26,280	-	26,280
Depreciation	-	286,858	286,858
Debt Service			
Principal	86,599	(86,599)	-
Interest	91,772	-	91,772
	<hr/>	<hr/>	<hr/>
Total expenditures	6,002,898	(383,319)	5,619,579
	<hr/>	<hr/>	<hr/>
Excess of Revenues Over (Under) Expenditures/ Change in Net Assets	(129,565)	553,125	423,560
Fund Balance/Net Assets - October 1, 2003	<hr/>	<hr/>	<hr/>
	1,374,542	325,259	1,699,801
Fund Balance/Net Assets - September 30, 2004	<u>\$ 1,244,977</u>	<u>\$ 878,384</u>	<u>\$ 2,123,361</u>

See accompanying notes to combined financial statements

THE LIBRARY NETWORK

RECONCILIATION OF THE FUND FINANCIAL STATEMENTS TO THE GOVERNMENT-WIDE FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Total fund balance and the net change in fund balance of The Library Network's governmental fund differs from net assets and changes in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures and change in fund balance. The following are reconciliations of fund balance to net assets and the net change to the net change in net assets:

Total Fund Balance - Modified Accrual Basis	\$ 1,244,977
Amounts reported in the statement of net assets are different because:	
Accounts receivables not collected within 60 days of year-end are reported as deferred revenues	169,806
Capital assets are not financial resources, and are not reported in the funds	1,832,924
Compensated absences are included as a liability	(123,057)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,001,289)
Net Assets of General Fund - Full Accrual Basis	<u>\$ 2,123,361</u>
Net Change in Fund Balances - Modified Accrual Basis	\$ (129,565)
Amounts reported in the statement of activities are different because:	
Revenues not collected within 60 days of year-end are recognized in the statement of activities, but not in the fund statements	169,806
Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Equipment Maintenance	78,424
Special Revenue Fund	502,148
Depreciation	(286,858)
Increase in the accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	3,006
Repayments of loan principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	86,599
Change in Net Assets of General Fund - Full Accrual Basis	<u>\$ 423,560</u>

See accompanying notes to combined financial statements

THE LIBRARY NETWORK

COMBINING BALANCE SHEET - GOVERNMENTAL FUNDS SEPTEMBER 30, 2004

	General Fund	Special Revenue	Agency Fund	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 333,205	\$ 933,944	\$ -	\$ 1,267,149
Restricted cash	-	-	208,752	208,752
Inventories	20,195	-	-	20,195
Prepaid expenses	340,876	-	-	340,876
Due from member libraries	716,649	-	-	716,649
	<u>1,410,925</u>	<u>933,944</u>	<u>208,752</u>	<u>2,553,621</u>
Total assets	<u>\$ 1,410,925</u>	<u>\$ 933,944</u>	<u>\$ 208,752</u>	<u>\$ 2,553,621</u>
Liabilities				
Accounts payable	\$ 358,793	\$ -	\$ -	\$ 358,793
Advances from member libraries	-	-	208,752	208,752
Accrued wages and payroll taxes	38,763	-	-	38,763
Due to other governmental units	26,899	-	-	26,899
Deferred revenue	675,437	-	-	675,437
	<u>1,099,892</u>	<u>-</u>	<u>208,752</u>	<u>1,308,644</u>
Total liabilities	<u>1,099,892</u>	<u>-</u>	<u>208,752</u>	<u>1,308,644</u>
Fund Equity				
Fund balance - unreserved				
Designated for SAS	97,434	-	-	97,434
Designated for Bibliographic	23,453	-	-	23,453
Designated for Acquisitions	29,458	-	-	29,458
Undesignated	160,688	-	-	160,688
Fund balance - reserved				
Designated for special revenues	-	933,944	-	933,944
	<u>311,033</u>	<u>933,944</u>	<u>-</u>	<u>1,244,977</u>
Total fund equity	<u>311,033</u>	<u>933,944</u>	<u>-</u>	<u>1,244,977</u>
Total liabilities and fund equity	<u>\$ 1,410,925</u>	<u>\$ 933,944</u>	<u>\$ 208,752</u>	<u>\$ 2,553,621</u>

See accompanying notes to combined financial statements

THE LIBRARY NETWORK

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Revenues			
Formula revenues	\$ 3,041,349	\$ -	\$ 3,041,349
Formula telecommunications	343,950	-	343,950
Member reimbursements	-	154,583	154,583
Earned income	229,936	-	229,936
Rental income	35,925	-	35,925
Cooperative state aid	1,644,312	-	1,644,312
Nonmember reimbursements	1,950	-	1,950
Consulting fees	15,000	89,809	104,809
Interest	6,549	7,069	13,618
Federal grant revenue	-	26,666	26,666
Miscellaneous revenue	20,256	-	20,256
Contracts	149,790	106,189	255,979
	<hr/>	<hr/>	<hr/>
Total revenues	5,489,017	384,316	5,873,333

See accompanying notes to combined financial statements

THE LIBRARY NETWORK

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
Expenditures			
Books and materials	\$ 1,798,838	\$ 866	\$ 1,799,704
Salaries and employee benefits	1,806,454	-	1,806,454
Supplies and miscellaneous	221,691	-	221,691
Contractual services	365,989	80,961	446,950
Utilities and telephone	416,860	-	416,860
Other costs/transfers	516,938	43,611	560,549
Equipment maintenance	225,675	498,735	724,410
Grant expenditures	-	26,280	26,280
	<u>5,352,445</u>	<u>650,453</u>	<u>6,002,898</u>
Excess of Revenues Over (Under)			
Expenditures	136,572	(266,137)	(129,565)
Fund balance - unreserved			
Designated for Menu Services	121,634	-	121,634
Undesignated	52,827	-	52,827
Fund balance - reserved			
Designated for special revenues	-	1,200,081	1,200,081
	<u>174,461</u>	<u>1,200,081</u>	<u>1,374,542</u>
Total Fund Balance - October 1, 2003			
Fund balance - unreserved			
Designated for Menu Services	150,345	-	150,345
Undesignated	160,688	-	160,688
Fund balance - reserved			
Designated for special revenues	-	933,944	933,944
	<u>311,033</u>	<u>933,944</u>	<u>1,244,977</u>
Total Fund Balance - September 30, 2004	<u>\$ 311,033</u>	<u>\$ 933,944</u>	<u>\$ 1,244,977</u>

See accompanying notes to combined financial statements

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of The Library Network conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies:

The Reporting Entity

The Library Network was established under the terms of the State of Michigan Public Act 89 of 1977. The Network operates as a cooperative library providing various services to member libraries located in Wayne, Oakland, Livingston, St. Clair and Washtenaw Counties.

The Library Network is governed by a nine-member Board of Trustees elected by member libraries. There are no component units to be included in these financial statements.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is fiscally accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not included among revenues mentioned above are reported instead as general revenues.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Government-Wide and Fund Financial Statements - Continued

Separate financial statements are provided for Governmental Funds, Proprietary Funds, and Fiduciary Funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, The Library Network considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Governmental funds expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

On the governmental funds statements, property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The Library Network reports the following major governmental funds:

- The *General Fund* contains the records of the ordinary activities of The Library Network that are not accounted for in another fund. General Fund activities are financed by revenue from member reimbursements, cooperative state aid and other sources.
- The *Grant Fund* accounts for the all federal program revenues and expenditures. Financing is provided by federal grants.
- The *MiLE Fund* accounts for the operation and maintenance of the MiLE automation system. The fund is financed by charges to member libraries.
- The *PLFIG Fund* accounts for the activities related to the research into alternative sources of financing. The fund is financed by donations by libraries.
- The *General Fund Capital Reserve* accounts for the accumulation of funds for the purchase of capital assets in the future.
- The *SAS Capital Reserve Fund* accounts for the operation and maintenance of the shared automation system. The fund is financed by charges to member libraries.
- The *Agency Fund* accounts for the accumulation of resources to be used by member libraries to meet their various budgetary needs.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, exceptions to this general rule are payments in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and arena funds and the government's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as *nonoperating* revenues and expenses.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The Library Network follows these procedures in establishing the budgetary data reflected in the supplementary information:

- By the last day of August, The Library Network Director submits to the board a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted by the board to obtain member comments.
- No later than the last day of September, the budget is legally enacted through passage of a board resolution.
- Formal budgetary integration is employed as a management control device during the year for all governmental funds.
- Budgets are adopted on a modified accrual basis consistent with generally accepted accounting principles.
- Budgetary control over expenditures is maintained on an activity level basis by department, which is the legal level of control for all funds. Administrative control is maintained through the establishment of more detailed line-item budgets.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Budgets and Budgetary Accounting - Continued

- Budgets are adopted by the board are at the activity level. The Library Network has the authority to transfer necessary amounts between activities within the same department of any fund and make any adjustments which do not affect the ending fund balance. Transfers between departments do not require approval by the board.
- Supplemental appropriations for additional expenditures, which require an appropriation of available fund balance, must be approved by the board.
- Budgeted amounts are as originally adopted or as amended by the board during the year.
- Appropriations for continuing projects are incorporated in the budget of the ensuing year. The Library Network reserves fund balances for these items.

Assets, Liabilities and Net Assets or Equity

Cash and Cash Equivalents

The Library Network considers cash on hand and demand deposits, and short-term investments with maturities of three months or less when purchased to be cash equivalents.

Investments

Investments are reported at their fair value.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Assets, Liabilities and Net Assets or Equity - Continued

Inventories and Prepaid Items

Inventories are accounted for using the consumption method and are valued at cost (first-in, first-out).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, equipment, and vehicles, are reported in governmental activities columns of the government-wide financial statements. Capital assets are defined by The Library Network as tangible property having a useful life in excess of three years and whose cost exceeds \$5,000.

All fixed assets are valued at historical cost. Donated fixed assets are recorded at their fair value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially increase the assets lives are not capitalized. Major outlays for capital assets are capitalized as projects are constructed.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Assets, Liabilities and Net Assets or Equity - Continued

Capital Assets - Continued

Depreciation of all exhaustible fixed assets used by The Library Network is charged as an expense against its various functions. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	<u>Years</u>
Buildings	20
Equipment	6 - 10
Vehicles	4

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt, notes, and other obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund types statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts as well as issuance costs during the current period. The face amount of debt is reported as other financing sources. Premiums and discounts are reported as other financing sources (uses) while issuance costs are reported as expenditures.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Assets, Liabilities and Net Assets or Equity - Continued

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition or construction of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors, laws, or regulations from other governments.

Revenues, Expenditures and Expenses

The Library Network bills and collects fees for services on a cost reimbursement basis. Fees not collected within 60 days of year-end are classified as deferred revenues.

The Library Network also collects monies from the State of Michigan for cooperative state aid.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 1 - Summary of Significant Accounting Policies - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

Revenues, Expenditures and Expenses - Continued

Compensated Absences

The Library Network's employees are granted vacation and sick leave in varying amounts based on length of service. Employees can accumulate up to two years of vacation time. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of eight hours per month. Unused sick leave accumulates from year-to-year to a maximum of 130 days. Upon termination, employees are paid for their sick leave, up to a maximum of 130 days, at their current rates according to the following:

50% of their balance upon death or normal retirement

25% of their balance upon termination

It is The Library Network's policy to recognize the cost of vacation and sick leave at the time the liability is incurred, including salary related payments. A liability for the entire amount of current and long-term is accrued in the government-wide financial statements. In the fund financial statements, the current portion of the cost of vacation pay and sick leave is recorded in the appropriate government fund.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 2 - Stewardship, Compliance and Accountability

Excess Expenditures Over Appropriations

During the fiscal year ended September 30, 2004, The Library Network incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated. Available revenues or fund balance funded the following expenditures in excess of budgeted amounts:

Special Revenue Funds	
Books and materials	\$ <u>866</u>

Note 3 - Cash and Cash Equivalents

The Library Network's deposits and investments are included on the statement of net assets under the following classifications:

Cash and cash equivalents	\$ 1,267,149
Restricted cash and cash equivalents	<u>208,752</u>
Total	\$ <u>1,475,901</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 1,199,966
Investments in bank cash management funds and mutual funds	275,538
Petty cash or cash on hand	<u>397</u>
Total	\$ <u>1,475,901</u>

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 3 - Cash and Cash Equivalents - Continued

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not cleared or of deposits in transit) at \$1,670,508. Of that amount, \$166,786 was covered by the Federal Depository Insurance Corporation and \$1,503,722 was uninsured and uncollateralized. The Library Network believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. In addition, the laws of the State of Michigan do not provide for the collateralization of bank deposits. As a result, The Library Network evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments

The Library Network is authorized by the State of Michigan Public Act 20 of 1943 (as amended) to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. Investments in the General Fund, Special Revenue Funds and Agency Fund are stated at fair value.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 4 - Capital Assets

Capital asset activity of the primary government's Governmental Activities are as follows:

	<u>Balance Oct. 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance Sept. 30, 2004</u>
Governmental Activities				
Capital assets not depreciated				
Land	\$ 135,000	\$ -	\$ -	\$ 135,000
Capital assets being depreciated				
Buildings	1,592,936	-	-	1,592,936
Equipment	1,854,760	502,148	(27,347)	2,329,561
Vehicles	<u>57,450</u>	<u>78,424</u>	<u>-</u>	<u>135,874</u>
Totals at historical cost	3,640,146	580,572	(27,347)	4,193,371
Less Accumulated Depreciation for				
Buildings	554,340	79,647	-	633,987
Equipment	1,489,282	179,243	(27,347)	1,641,178
Vehicles	<u>57,314</u>	<u>27,968</u>	<u>-</u>	<u>85,282</u>
Total accumulated depreciation	<u>2,100,936</u>	<u>286,858</u>	<u>(27,347)</u>	<u>2,360,447</u>
Total Governmental Activities Capital Assets, net	<u>\$ 1,539,210</u>	<u>\$ 293,714</u>	<u>\$ -</u>	<u>\$ 1,832,924</u>

Depreciation expense was not charged to governmental functions and is reported as an unallocated expense of \$286,858.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 5 - Long-Term Obligations

The following is a summary of individual issues comprising long-term obligations of The Library Network at September 30, 2004 and the changes therein for the year then ended:

	<u>Interest Rate</u>	<u>Balance Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2004</u>
Governmental Activities					
Mortgage	8.75%	\$ 1,087,888	\$ -	\$ (86,599)	\$ 1,001,289

In November 2004, The Library Network refinanced its long-term obligations through the issuance of a combination of bonds. Tax exempt bonds totaling \$938,000 were issued with a 4.2% interest rate. Taxable bonds with a value of \$114,000 were issued with an interest rate of 6.5%.

The annual requirements to pay principal and interest on the refinanced long-term bonds, notes, and contracts outstanding at September 30, 2004 are as follows:

<u>Fiscal Year Ending</u>	<u>Primary Government Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 79,604	\$ 34,867
2006	125,392	38,088
2007	130,893	32,615
2008	136,497	26,991
2009	142,342	21,126
2010	148,436	15,010
2011	154,792	8,632
2012	<u>134,044</u>	<u>2,126</u>
Total	\$ 1,052,000	\$ 179,455

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 6 - Changes in General Fund Reserves/Fund Balance

	<u>Balance 10/1/03</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/04</u>
Reserved				
Special revenues	\$ 1,200,081	\$ -	\$ 266,137	\$ 933,944
Unreserved				
Designated for Menu services	52,324	98,021	-	150,345
Undesignated	<u>121,634</u>	<u>39,054</u>	<u>-</u>	<u>160,688</u>
Totals	<u>\$ 1,374,039</u>	<u>\$ 137,075</u>	<u>\$ 266,137</u>	<u>\$ 1,244,977</u>

Note 7 - Defined Benefit Pension Plan

Plan Description

The Library Network's defined benefit plan, the Municipal Employees Retirement System of Michigan (MERS) is an agent multiple-employer pension plan. The plan provides both retirement and death and disability benefits. The State of Michigan Public Act Number 220 of 1996 assigns the authority to establish and amend the benefit provisions of the MERS plan document. The MERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to MERS, 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Library Network is required to contribute at actuarially determined rates based on employee classification: the current rates range between 4.73% and 7.19% of covered payroll. Contributions are required by the employees based on employee classification: the current rates range between 0% and 5%. The contribution requirements of The Library Network are established and may be amended by the Board of Trustees.

THE LIBRARY NETWORK

NOTES TO COMBINED FINANCIAL STATEMENTS SEPTEMBER 30, 2004

Note 7 - Defined Benefit Pension Plan - Continued

Annual Pension Cost

The Library Network's annual minimum required contribution was \$82,140. The actual contribution for the year ended September 30, 2004 was \$75,127. These contributions were made based upon billings by MERS. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on investments of 8.0%, (b) projected salary increases of 4.5%, (c) additional projected salary increases ranging from 0.0% to 4.2% per year depending on age and attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of MERS assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four year period.

Four year trend information for MERS is as follows:

<u>Year Ended December 31,</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2000	\$ 43,593	112%	\$ -
2001	49,956	35%	-
2002	73,656	34%	-
2003	82,140	91%	-

See the required supplementary information section of the financial statements for the summary Schedule of Funding Progress.

Note 8 - Risk Management and Benefits

The Library Network is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library Network has purchased commercial insurance for these claims. Settled claims have not exceeded the amount of insurance coverage in any of the past three years.

THE LIBRARY NETWORK

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF FUNDING PROGRESS OF THE MERS RETIREMENT PLAN

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1999	\$ 3,248,916	\$ 3,091,944	\$ (156,972)	105%	\$ 1,142,196	(13.7)%
2000	3,517,384	3,368,417	(148,967)	104	1,135,689	(13.1)
2001	3,735,429	3,652,624	(82,805)	102	1,128,922	(7.3)
2002	3,762,892	3,952,692	189,800	95	1,283,902	14.8
2003	4,205,360	3,955,377	249,983	94	1,349,055	18.5

THE LIBRARY NETWORK ALL GOVERNMENTAL FUND TYPES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund						Special Revenue Funds					
	Administrative/Overhead			Menu Services			Other			Other		
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues												
Cooperative state aid	\$ 1,642,571	\$ 1,644,312	\$ 1,741	-	-	-	\$ 1,217,478	\$ 1,217,478	\$ 1,644,312	\$ 1,741	-	\$ -
Interest	7,600	6,549	(1,051)	-	-	-	16,000	7,600	6,549	(1,051)	7,000	7,069
Contracts	97,090	107,102	10,012	-	-	-	151,187	137,589	149,790	12,201	90,505	106,189
Earned income	59,900	63,831	3,931	187,959	166,105	(21,854)	260,400	247,859	229,936	(17,923)	-	-
Nonmember reimbursements	2,100	1,950	(150)	-	-	-	1,200	2,100	1,950	(150)	-	-
Consulting fees	25,000	15,000	(10,000)	-	-	-	30,760	25,000	15,000	(10,000)	90,000	89,809
Miscellaneous revenue	24,300	17,717	(6,583)	2,500	2,539	39	6,800	26,800	20,256	(6,544)	-	-
Rental income	39,395	35,925	(3,470)	-	-	-	38,195	39,395	35,925	(3,470)	-	-
Federal grant revenue	-	-	-	-	-	-	-	-	-	-	75,000	26,666
Formula revenues	-	-	-	1,866,067	1,248,584	(617,483)	3,321,511	3,741,584	3,041,349	(700,235)	-	-
Formula Telecommunications	-	-	-	-	343,950	(343,950)	402,555	402,555	343,950	(58,605)	-	-
Reimbursements from members	-	-	-	-	-	-	-	-	-	-	176,158	154,583
Total revenues	1,897,856	1,892,386	(5,470)	1,999,580	1,803,866	(195,714)	2,375,517	1,792,765	5,489,017	(782,752)	302,540	384,316
												(54,347)

THE LIBRARY NETWORK ALL GOVERNMENTAL FUND TYPES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) - BUDGET AND ACTUAL FOR THE YEAR ENDED SEPTEMBER 30, 2004

	General Fund										Special Revenue Funds			
	Administrative/Overhead					Menu Services					Other			
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures														
Salaries and employee benefits	\$ 938,725	\$ 906,125	\$ 32,600	\$ 52,600	\$ 5,697	\$ 900,329	\$ 36,837	\$ 9,291	\$ 1,725,141	\$ 1,864,751	\$ 1,806,454	\$ 58,297	\$ -	\$ (866)
Books and materials	8,250	1,505	6,745	46,128	9,291	36,837		321,004	1,988,550	2,135,878	1,798,538	337,040	866	
Supplies and miscellaneous	72,800	67,571	5,229	166,695	30,983	135,712		(3,408)	248,260	254,495	221,691	32,804	-	-
Utilities and telephone	66,475	65,453	1,022	402,555	51,148	351,407		-	475,755	460,030	416,860	52,170	-	-
Equipment maintenance	90,500	81,149	9,351	160,100	15,574	144,526		-	267,900	250,600	225,675	24,925	488,425	498,735
Contractual services	212,701	243,612	(30,911)	168,197	62,172	106,025		13,648	301,074	410,898	365,989	44,909	70,000	80,961
Other costs/transfers	327,967	322,244	5,743	109,513	9,194	100,319		79,125	439,486	611,000	516,938	94,062	47,505	43,611
Grant expenditures	-	-	-	-	-	-		-	-	-	-	75,000	26,280	48,720
Total expenditures	1,737,438	1,687,639	49,779	1,959,214	184,039	1,775,155		410,369	5,446,086	5,996,652	5,352,445	644,207	650,453	112,052
Excess of Revenues Over (Under) Expenditures	\$ 160,518	204,727	\$ 44,209	\$ 40,966	\$ (11,655)	28,711	\$ 75,517	\$ (96,866)	\$ -	\$ 276,401	136,572	\$ (139,829)	\$ (378,300)	\$ (266,137)
Fund Balance (Deficit) - October 1, 2003		128,344				121,634		(75,517)			174,461		1,200,081	
Fund Balance (Deficit) - September 30, 2004		\$ 333,071				\$ 150,345		\$ (172,983)			\$ 311,033		\$ 933,944	

THE LIBRARY NETWORK
SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET
SEPTEMBER 30, 2004

ASSETS

	Grant	PLFIG	MILE	General Fund Capital Reserve	SAS Capital Reserve	Total
Cash and cash equivalents	\$ 386	\$ 43,359	\$ 20,507	\$ 54,548	\$ 815,144	\$ 933,944

FUND EQUITY

Fund balance - reserved	\$ 386	\$ 43,359	\$ 20,507	\$ 54,548	\$ 815,144	\$ 933,944
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THE LIBRARY NETWORK SPECIAL REVENUE FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED SEPTEMBER 30, 2004

	Grant	PLFIG	MILE	General Fund Capital Reserve	SAS Capital Reserve	Total
Revenues						
Reimbursements from members	\$ -	\$ -	\$ -	54,548	100,035	\$ 154,583
Consulting fees	-	89,809	-	-	-	89,809
Contracts	-	-	106,189	-	-	106,189
Interest on investments	-	-	-	-	7,069	7,069
Federal grant revenue	26,666	-	-	-	-	26,666
Total revenues	26,666	89,809	106,189	54,548	107,104	384,316
Expenditures						
Books and materials	-	-	366	-	500	866
Equipment maintenance	-	-	43,650	-	455,085	498,735
Contractual services	-	40,215	38,347	-	2,399	80,961
Other costs/transfers	-	6,235	3,319	-	34,057	43,611
Grant expenditures	26,280	-	-	-	-	26,280
Total expenditures	26,280	46,450	85,682	-	492,041	650,453
Excess of Revenues Over (Under) Expenditures	386	43,359	20,507	54,548	(384,937)	(266,137)
Fund Balance - October 1, 2003	-	-	-	-	1,200,081	1,200,081
Fund Balance - September 30, 2004	386	43,359	20,507	54,548	815,144	933,944

THE LIBRARY NETWORK GENERAL FUND - MENU SERVICES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Acquisitions</u>	<u>SAS</u>	<u>Bibliographic</u>	<u>Total</u>
Revenues				
Contracts	\$ 18,549	\$ 11,959	\$ 12,180	\$ 42,688
Earned income	63,874	102,231	-	166,105
Miscellaneous revenue	2,539	-	-	2,539
Formula revenues	277,120	730,399	241,065	1,248,584
Formula Telecommunications	-	343,950	-	343,950
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	362,082	1,188,539	253,245	1,803,866
Expenditures				
Salaries and employee benefits	223,005	508,820	168,504	900,329
Books and materials	34,796	1,293	748	36,837
Supplies and miscellaneous	14,073	120,765	874	135,712
Utilities and telephone	-	351,407	-	351,407
Equipment maintenance	-	144,526	-	144,526
Contractual services	15,740	12,620	77,665	106,025
Other costs/transfers	37,679	55,639	7,001	100,319
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	325,293	1,195,070	254,792	1,775,155
Excess of Revenues Over (Under)				
Expenditures	36,789	(6,531)	(1,547)	28,711
Fund Balance (Deficit) - October 1, 2003	<hr/> (7,330)	<hr/> 103,964	<hr/> 25,000	<hr/> 121,634
Fund Balance - September 30, 2004	<hr/> <u>\$ 29,459</u>	<hr/> <u>\$ 97,433</u>	<hr/> <u>\$ 23,453</u>	<hr/> <u>\$ 150,345</u>

**THE LIBRARY NETWORK
GENERAL FUND - MENU SERVICES**

**SCHEDULE OF DEFERRED REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	<u>Acquisitions</u>	<u>SAS</u>	<u>Bibliographic</u>	<u>Total</u>
Balance - October 1, 2003	\$ 26,994	\$ 26,520	\$ 27,166	\$ 80,680
Current Year Increase (Decrease)	<u>(11,124)</u>	<u>58,728</u>	<u>37,771</u>	<u>85,375</u>
Balance - September 30, 2004	<u>\$ 15,870</u>	<u>\$ 85,248</u>	<u>\$ 64,937</u>	<u>\$ 166,055</u>

THE LIBRARY NETWORK

**REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL**

SEPTEMBER 30, 2004



To the Members of the Board of Trustees
of **The Library Network**

We have audited the general purpose financial statements of The Library Network as of and for the year ended September 30, 2004, and have issued our report thereon dated November 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

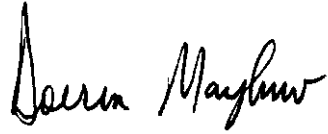
As part of obtaining reasonable assurance about whether The Library Network's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Library Network's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

DOEREN MAYHEW

This report is intended solely for the information and use of the management and Board of Trustees and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Doeren Mayhew". The signature is written in a cursive, flowing style.

DOEREN MAYHEW

November 19, 2004
Troy, Michigan